ADVANCE GOLD CORP.

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2011

DALE MATHESON
CARR-HILTON LABONTE LLP
DMCL CHARTERED ACCOUNTANTS

Partnership of:
Vancouver: Robert J. Burkart, Inc. James F. Carr-Hilton Ltd. Kenneth P. Chong Inc. Alvin F. Dale Ltd. Barry S. Hartley, Inc. Reginald J. LaBonte Ltd. Robert J. Matheson, Inc. Rakesh I. Patel Inc. F.M. Yada FCA Inc.
South Surrey: Michael K. Braun Inc. Peter J. Donaldson, Inc.
Port Coquitlam: Wilfred A. Jacobson Inc. G.D. Lee Inc. Fraser G. Ross, Ltd. Brian A. Shaw Inc.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Advance Gold Corp.:

We have audited the accompanying consolidated financial statements of Advance Gold Corp. which comprise the consolidated balance sheet as at May 31, 2011, and the consolidated statements of operations and comprehensive loss, deficit and accumulated other comprehensive income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Advance Gold Corp. as at May 31, 2011 and the results of its operations, and its cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of $2,045,210 during the year ended May 31, 2011 and has a working capital deficiency in the amount of $73,847. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The comparative figures for the year ended May 31, 2010 were audited by another firm of Chartered Accountants who expressed an opinion without reservation on September 24, 2010.

"DMCL"

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September 28, 2011

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ADVANCE GOLD CORP.
CONSOLIDATED BALANCE SHEETS

		May 31 2011		May 31, 2010
ASSETS				
Current Assets				
Cash	$	13,288	$	27,298
Investment		-		12,500
Accounts receivable		10,252		21,866
Prepaid expenses		3,467		2,769
		27,007		64,433
Equipment (Note 4)		111		138
Mineral Property Interests (Statement and Note 5)		600,429		1,986,586
Deferred Exploration Expenditures (Statement and Note 5)		54,294		743,975
	$	681,841	$	2,795,132
LIABILITIES				
Current Liabilities				
Accounts payable and accruals (Note 7)	$	100,854	$	68,831
Loan payable (Note 7)		-		10,000
		100,854		78,831
Future Income Taxes (Note 10)		134,225		334,302
		235,079		413,133
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		4,305,469		4,205,704
Contributed Surplus (Note 6)		662,294		647,086
Deficit		(4,521,001)		(2,475,791)
Accumulated Other Comprehensive Income		-		5,000
		446,762		2,381,999
	$	681,841	$	2,795,132

Nature and Continuance of Operations (Note 1)
Commitments (Notes 5 and 8)
Subsequent Event (Note 13)

Approved By The Directors:

James T. Gillis **Director**

Debbie M. Silver **Director**

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Years ended May 31

	2011	2010
Expenses		
Advertising and promotion	$ 1,061	$ 2,265
Amortization of equipment	27	74
Consulting fees (Note 7)	5,280	11,736
Corporate development		
– cash	-	10,000
– stock-based compensation (Note 6)	-	11,418
Dues, conferences and subscriptions	906	2,190
Foreign exchange (gain) loss	(34,294)	2,216
Interest and bank charges	1,362	1,484
Management fees (Note 7)	60,000	60,000
Office, clerical and sundry	2,087	4,924
Professional fees	33,557	43,720
Property investigation	8,423	-
Rent and telephone (Note 7)	6,170	11,832
Stock-based compensation (Note 6)	-	88,834
Wages and benefits	15,557	31,071
Transfer agent and filing fees	17,781	17,774
Net loss before other items and income taxes	(117,917)	(299,538)
Other items		
Gain on sale of investment	4,850	-
Write-down of mineral properties (Statement and Note 5)	(2,097,570)	(359,919)
Net loss before income taxes	(2,210,637)	(659,457)
Future income tax recovery (Note 10)	165,427	33,698
Net loss for the year	(2,045,210)	(625,759)
Other comprehensive income (loss)		
Investments classified as available-for-sale	(5,000)	5,000
Comprehensive loss for the year	$ (2,050,210)	$ (620,759)
Loss per share – basic and diluted	$ (0.09)	$ (0.03)
Weighted average number of common shares outstanding – basic and diluted	23,847,909	21,226,854

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME
Years ended May 31

		2011		2010
Deficit, beginning of year	$	(2,475,791)	$	(1,850,032)
Net Loss		(2,045,210)		(625,759)
Deficit, end of year	$	(4,521,001)	$	(2,475,791)
Accumulated Other Comprehensive Income, beginning of year	$	5,000	$	-
Unrealized gain on investment classified as available-for-sale		-		5,000
Reclassification adjustment for gains included in net loss		(5,000)		-
Accumulated Other Comprehensive Income, end of year	$	-	$	5,000

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended May 31

		2011		2010
Cash Provided By (Used For):				
Operating Activities				
Net loss	$	(2,045,210)	$	(625,759)
Items not effecting cash:				
Amortization		27		74
Foreign exchange on non-working capital items		(34,650)		-
Gain on sale of investment		(4,850)		-
Future income tax recovery		(165,427)		(33,698)
Stock-based compensation		-		100,252
Write-down of mineral properties		2,097,570		359,919
Net change in non-cash working capital items:		42,939		(7,142)
Cash used for operating activities		(109,601)		(206,354)
Investing Activities				
Advances for mineral properties		-		99,673
Acquisition of mineral property interests		(2,402)		(111,604)
Deferred exploration expenditures		(19,330)		(43,915)
Sale of investments		12,350		-
Sale of property interest		-		37,516
Sale of equipment		-		64,040
Cash provided by (used for) investing activities		(9,382)		45,710
Financing Activities				
Proceeds of loan payable		-		10,000
Repayment of loan payable		(10,000)		-
Shares issued		120,000		168,900
Share issue costs		(5,027)		(27,448)
Cash provided by financing activities		104,973		151,452
Decrease in cash		(14,010)		(9,192)
Cash, beginning		27,298		36,490
Cash, ending	$	13,288	$	27,298

Supplemental cash flow information

Non-cash transactions:				
Shares received for mineral property	$	-	$	7,500

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF MINERAL PROPERTY INTERESTS

	May 31, 2010	Additions	Write-down (Note 5)	May 31, 2011
Kakamega Property, Kenya	$ 600,428	$ -	$ -	$ 600,428
Ngira Migori Property, Kenya	6,004	-	(6,003)	1
Nyakaqwe Property, Tanzania	1,380,149	2,402	(1,382,551)	-
Sotik Property, Kenya	5	-	(5)	-
	$ 1,986,586	$ 2,402	$ (1,388,559)	$ 600,429

	May 31, 2009	Additions	Sale of property interests (Note 5)	Write-down (Note 5)	May 31, 2010
Kakamega Property, Kenya	$ 599,200	$ 1,228	$ -	$ -	$ 600,428
Ngira Migori Property, Kenya	2,281	6,239	(2,516)	-	6,004
Nyakaqwe Property, Tanzania	1,258,446	121,703	-	-	1,380,149
Sotik Property, Kenya	-	5	-	-	5
Kanweaken Property, Liberia	106,526	(17,570)	(42,500)	(46,456)	-
Ugunja Property, Kenya	9,366	-	-	(9,366)	-
	$ 1,975,819	$ 111,605	$(45,016)	$ (55,822)	$ 1,986,586

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

	2011	2010
Kakamega Property		
Opening balance	$ 45,968	$ 34,262
Administration	-	1,980
Camp	7,670	-
Communication	367	145
Travel	289	1,930
Wages and consultants	-	7,651
Ending balance	54,294	45,968
Ngira Migori Property		
Opening balance	18,483	19,627
Administration	-	661
Camp	-	1,098
Communication	-	45
Field supplies	-	2,865
Geochemical	-	1,181
Travel	-	1,667
Wages and consultants	-	10,966
Recovered costs	-	(19,627)
Write-down (Note 5)	(18,483)	-
Ending balance	-	18,483
Nyakagwe Property		
Opening balance	672,250	543,965
Camp	854	3,896
Communication	367	993
Geochemical	-	10,708
Rent	-	439
Travel	289	2,930
Wages and consultants	9,494	109,319
Write-down (Note 5)	(683,254)	-
Ending balance	-	672,250
Sotik Property		
Opening balance	7,274	77
Administration	-	1,761
Wages and consultants	-	5,436
Write-down (Note 5)	(7,274)	
Ending balance	-	7,274
Kanweaken Property		
Opening balance	-	283,034
Administration	-	4,213
Communication	-	518
Rent	-	609
Travel	-	16,699
Wages and consultants	-	40,062
Recovered costs	-	(45,546)
Write-down (Note 5)	-	(299,589)
Ending balance	-	-

continues...

The accompanying notes are an integral part of these consolidated financial statements.

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

...continued

	2011	2010
Ugunja Property		
Opening balance	-	48
Administration	-	613
Camp	-	174
Communication	-	74
Travel	-	66
Wages and consultants	-	3,534
Write-down (Note 5)		(4,509)
Ending balance	-	-
	$ 54,294	$ 743,975

The accompanying notes are an integral part of these consolidated financial statements.

1. **Nature and Continuance of Operations**

Advance Gold Corp. (the "Company") was incorporated in the Province of British Columbia on September 28, 2004 as Liberian Gold Corporation and changed its name to Africa West Minerals Corp. on June 28, 2006. The Company changed its name to Advance Gold Corp. on May 3, 2010. The Company's shares are listed on the TSX-Venture Exchange (the "Exchange"). The Company is an exploration stage company engaged in the exploration and evaluation of mineral property interests.

These consolidated financial statements have been prepared on the going concerns basis, which presumes that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company had a net loss of $2,045,210 for the year ended May 31, 2011 and had a working capital deficit of $73,847 at May 31, 2011. The ability of the Company to continue as going concern is in doubt and is dependent upon the continued support from its directors and its ability to continue to raise sufficient financing. Management is seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue.

2. **Significant Accounting Policies**

The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting principles ("GAAP"), presented in Canadian dollars and reflect the following significant accounting policies:

Basis of Consolidation

These financial statement include the accounts of Advance Gold Corp. and its wholly-owned subsidiaries, Liberian Gold Corporations Ltd., Liberian Gold Corporation Inc., Gold Rim Exploration Inc., and Gold Rim Exploration Kenya Ltd., (individually and collectively referred to as the "Company"). All inter-company balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the consolidated financial statements, as well as the reported amounts of revenues earned and expenses incurred during the reporting period. Actual results could differ from those estimates.

Items involving substantial measurement uncertainty are the recoverability of mineral property interests and their related deferred exploration expenditures, the provision for future site restoration and abandonment costs, the provision for future income taxes, the determination of stock-based compensation and the valuation of warrants. By their nature, these estimates are subject to future changes and the impact of those changes on the consolidated financial statements could be material.

Financial Instruments

The Company follows Canadian Institute of Chartered Accounts ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash, investment, accounts receivable, accounts payable and loan payable. Cash is measured at face value, representing fair value, and classified as held-for-trading. Investments, which consist of holdings in shares of a Canadian publicly listed company, are measured at fair value based on their quoted market price, and are classified as available-for-sale financial assets, with unrealized gains and losses included in other comprehensive income. Accounts receivable, which are measured at amortized cost, are classified as loans and receivables. Accounts payable and loan payable are measured at amortized cost and classified as other financial liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company has determined that it does not have derivatives or embedded derivatives.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Cash and investments are classified as Level 1.

Mineral Property Interests and Deferred Exploration Expenditures

The cost of mineral property interests and their related exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred expenditures will be amortized on a unit of-production basis over the estimated production from the properties following the commencement of production, or written-off if the properties are allowed to lapse or abandoned. Mineral property interest sale and option proceeds received are first credited against the costs of the related property, with any excess credited to operations. No gains or losses are recognized on the partial sale of dispositions of properties except in circumstances which result in significant dispositions of reserves.

Cost includes the cash consideration and the fair market value of common shares issued on the acquisition of mineral property interests. The recorded costs of mineral property interests and their related deferred exploration expenditures represent costs incurred, and are not intended to reflect present of future values. The Company does not accrue the estimated future costs of maintaining its mineral property interests in good standing.

The Company reviews the capitalized costs of its mineral property interests and related deferred exploration expenditures on a periodic basis and will recognize an impairment in value based upon current exploration or production results, if any, and upon management's assessment of the probability of future net cash flow from the interests or from sale of the interests. Management's assessment of the interests' estimated current fair value is also based upon its review of other property transactions in the same geographic area.

Environmental Expenditures

The Company applies the standard of accounting for asset retirement obligations whereby the Company estimates, when a reasonable estimate can be made, the fair value of site restoration and clean-up costs for mineral property interests and reflects this amount in the cost of the mineral property interest acquired. The liability accretes over time through periodic charges to operations or mineral property interest costs. After the first year, the Company adjusts the carrying amounts of the liability for changes in estimates of the amount or timing of underlying future cash flows. It is possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as a result of changes in regulations or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis. There were no accrued asset retirement costs as at May 31, 2011 and May 31, 2010.

Equipment

Equipment is recorded at cost and is amortized using the declining balance method at the rates disclosed in Note 4.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences) and for the future tax benefit of loss carry forwards. Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates that are expected to be in effect when the temporary differences are likely to reverse and when the benefit of loss carry forwards are expected to be realized. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

Foreign Currency Translation

The Company considers that all of its subsidiaries are integrated foreign operations. Therefore, account balances and transactions relating to both the Company and its subsidiaries are translated as follows:

- monetary assets and liabilities denominated in a foreign currency are translated at the period end rates of exchange;
- non-monetary foreign currency assets are translated at the rate prevailing on the dates the assets were acquired;
- revenues and expenses are translated at the exchange rate in effect on the dates they occur; and,
- translation gains and losses for the period are included in operations.

Stock-Based Compensation

The Company grants options to purchase shares under the terms described in Note 6. When options to purchase shares are granted to employees or directors, the fair value of the options on the date of the grant is recognized as a compensation expense, with a corresponding increase in contributed surplus, over the period during which the related options vest. When options to purchase shares are granted to non-employees in return for goods or services, the fair value of the options granted is recognized as an expense, with a corresponding increase in contributed surplus, in the period in which the goods or services are received or are expected to be received. The consideration received on the exercise of share options is credited to share capital. When options are exercised, previously recorded compensation is transferred from contributed surplus to share capital to fully reflect the consideration for the shares issued.

Loss Per Share

Basic loss per share are calculated using the weighted average number of common shares of the Company that were outstanding in each reporting period. The diluted earnings per share, which is disclosed only if dilutive, includes the potential dilution from outstanding options and share purchase warrants and is calculated using the treasury stock method and the weighted average number of shares outstanding.

3. New Accounting Pronouncements

New accounting pronouncements issued by CICA and which the Company intends to evaluate and, when applicable, adopt in the preparation of its future financial statements are:

<u>International Financial Reporting Standards (“IFRS”)</u>

The Canadian Accounting Standards Board will require all public companies to use IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of fiscal year 2012 when the Company will prepare both the current and comparative financial information using IFRS. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS and initial adoption alternatives have not been determined.

<u>Business Combination, Consolidated Financial Statements and Non-controlling interest</u>

For interim and annual financial statements relating to fiscal years commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests. Section 1582 replaces existing Section 1581, Business Combinations, and Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3, Business Combinations, and International Accounting Standard (“IAS”) 27, Consolidated and Separate Financial Statements, respectively. The impact of adopting these new standards has not yet been assessed.

4. Equipment

	May 31, 2011			
	Rate	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and equipment	20%	$ 501	$ 390	$ 111

	May 31, 2010			
	Rate	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and equipment	20%	$ 501	$ 363	$ 138

5. Mineral Property Interests

(a) **Kakamega Properties, Kenya:**

The Company applied for and was granted an Exclusive Prospecting License ("EPL") to cover the former Rosterman Mine and surrounding areas in Kenya. In addition, the Company has two other licenses in the immediate area.

In order to maintain the licences the Company is required to incur a minimum of Kenya Shillings ("KES") 5,000,000 (Canadian $71,350) in exploration expenditures per year for each license. The Company is also obligated to pay KES 10,000 (Canadian $143) for all areas operated under pilot mining.

On August 17, 2009 the Company signed a Memorandum of Understanding ("MOU") with Equatorial Mining Ltd. ("Equatorial") to develop the surface tailings from the former Rosterman Gold Mine. Under the terms of the MOU, Equatorial had until February 2010 to evaluate the tailings and design a procedure to exploit the contained gold. The MOU has now expired.

On April 20, 2011, the Company entered into an option and joint venture agreement with Aviva Corporation Ltd. ("Aviva"). Under the terms of the agreement, Aviva has the right to earn at least a 75% interest in the Kakamega Properties. The agreement is subject to due diligence and the Company obtaining approval of the agreement from the Commissioner of Mines and Geology of Kenya. The agreement became effective on July 21, 2011, when these two conditions had been fulfilled (the "Effective Date").

To earn a 51% interest in the properties, Aviva must:

- Incur a minimum of US$100,000 in exploration expenditures on the properties within 12 months of the effective date;
- Make a US$100,000 cash payment to the Company within 15 days of date that the initial US$100,000 exploration expenditures are ratified; and
- Incur a further US$500,000 in exploration expenditures on the properties within 24 months of the date that the initial US$100,000 exploration expenditures are ratified.

Once Aviva has exercised its option to earn a 51% interest in the properties, a joint venture will be formed which will hold the licenses. All revenues, costs, assets and liabilities arising from the joint venture will be shared by the Company and Aviva in accordance with their percentage interests in the properties.

To earn an additional 24% interest in the properties, Aviva must:

- Incur an additional US$1,000,000 in exploration expenditures on the properties within 24 months of earning a 51% interest.

Once Aviva has obtained a 75% interest, the Company may elect to dilute their interest to 10% after which Aviva may convert the Company's interest in the property to a 3% net smelter royalty.

(b) **Ngira Migori Property, Kenya:**

Pursuant to an agreement dated September 11, 2007 and amended and restated on August 6, 2009, the Company has an option to acquire up to an 85% interest in the Ngira Migori Property (the "Option"), in the Migori area of Kenya.

In order to maintain the Option in force and to exercise the Option, the Company shall:

- Incur a minimum of $50,000 in exploration expenditures by September 11, 2008 in order to obtain a 25% interest in the property;
- Incur an additional $50,000 in exploration expenditures by September 11, 2009 in order to obtain a further 25% interest in the property;
- Incur an additional $50,000 in exploration expenditures by September 11, 2010 in order to obtain a further 25% interest in the property; and
- Notify the optionor of its intention to install a production plan on the property and to complete such installation within three years of providing such notice in order to obtain a further 10% interest in the property.

The Company entered into an option agreement dated August 13, 2009 with Red Rock Resources PLC ("Red Rock") for Red Rock to acquire a 70% interest in the Ngira Migori Property. Red Rock paid the Company US$20,000 (Canadian $22,144) upon signing the agreement and is required to incur minimum expenditures of US$180,000 and drill 1,200m before August 13, 2011 and a minimum of 2,400m before August 13, 2012. Red Rock is also required to maintain the property in good standing during the option period.

During the year ended May 31, 2011, the Company wrote-down the carrying value of this property to $1 as they have no immediate exploration activity planned for this property.

(c) **Nyakagwe Property, Tanzania:**

The Company acquired, through a contract with Thamani Mines Ltd. ("TML"), 46 Primary Mining Licenses ("PML") from a group of local land owners. TML also obtained one prospecting license on the Company's behalf in November 2009. The prospecting license and the group of 46 PML's form 3 blocks of contiguous claims, named the Nyakagwe Project. Under the agreement with TML, TML would explore the property under the Company's management and funding.

The Company wrote-off this property during the year ended May 31, 2011 as management does not intend to conduct further exploration work on this property.

(d) **Sotik Property, Kenya:**

The Company applied for and was granted a mining exploration license for the Sotik property, which is located in southern Kenya.

The Company wrote-off this property during the year ended May 31, 2011 as management does not intend to conduct further exploration work on this property.

(e) **Kanweaken Property, Liberia:**
The Government of the Republic of Liberia had granted to the Company's subsidiary, Liberian Gold Corporation Inc., mineral exploration rights in the Republic of Liberia.

The Company entered into an option agreement dated July 13, 2009 with Providence Capital Corp. ("Providence"), a company with a director in common, for the acquisition of a 60% interest (the "Option") in the Kanweaken Property. Providence paid the Company $25,000 and 100,000 shares of Providence upon acceptance by the Exchange of the Option. Providence terminated the agreement in May 2010 and paid the Company a termination fee of $20,000.

The Company surrendered these mineral exploration rights on May 10, 2010 and wrote-off this property.

(f) **Ugunja Property, Liberia**
The Company controlled the Ugunja Joint Venture which includes an EPL situated at the west end of the Kakamega greenstone belt, the same belt that hosts the Rosterman Mine.

The Joint Venture agreement with Kenya Discovery Ltd. ("KDL") entered into on December 18, 2007 granted the Company a 15% interest in the property if exploration expenditures of US $125,000 were incurred and if the Company maintained the license in good standing. The Company could have earned an additional 35% interest by incurring an additional US $125,000 in exploration expenditures.

The Company surrendered this property in September 2010 and wrote-off this property.

6. Share Capital

(a) **Consolidation of share capital:**
Effective May 3, 2010, the Company consolidated its common shares on the basis of one new common share for every two existing common shares. The consolidation of the authorized and issued shares and outstanding options and warrants and their respective exercise prices have been presented retroactively, as though the consolidation had occurred on June 1, 2009, in these consolidated financial statements and the accompanying notes.

(b) **Authorized:**
Unlimited number of common shares at no par value
Unlimited number of preferred shares at no par value

(c) The Company's issued and outstanding share capital and contributed surplus is:

Common Shares	**Share capital # of shares**	**Share capital Amount**	**Contributed Surplus**
Balance, May 31, 2009	20,708,902	$ 4,132,753	$ 359,402
Private placement net of $11,876 of issue cost	832,500	60,096	27,928
Private placement	575,000	28,427	40,573
Share consolidation costs		(15,572)	-
Stock-based compensation	-	-	219,183
Balance, May 31, 2010	22,116,402	4,205,704	647,086
Private placement net of $5,027 of issue costs	2,000,000	99,765	15,208
Balance, May 31, 2011	24,116,402	$ 4,305,469	$ 662,294

2011 Share Issuances:

On July 19, 2010 the Company closed a non-brokered private placement, consisting of 2,000,000 units at a price of $0.06 per unit for gross proceeds of $120,000. Each unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant with each whole warrant entitling the holder to purchase an additional common share at a price of $0.10 per share until July 19, 2011, subject to accelerated expiry in certain circumstances. Of the $120,000 proceeds, $15,208 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes option pricing model with the following assumptions: an expected life of one year; a volatility of 122%; a risk-free interest rate of 1.02%; and an expected dividend yield rate of nil. The Company incurred share issue costs of $5,027 relating to this transaction.

2010 Share Issuances:

On December 14, 2009 the Company closed a non-brokered private placement, consisting of 832,500 units at a price of $0.12 per unit for gross proceeds of $99,900. Each unit is comprised of one common share of the Company and one-half of one non-transferable share purchase warrant with each whole warrant entitling the holder to purchase an additional common share at a price of $0.20 per share until December 14, 2010, subject to accelerated expiry in certain circumstances. Of the $99,900 proceeds, $27,928 was allocated to the warrants, being their estimated issue date fair value. The Company incurred share issue costs of $11,876 relating to this transaction.

On March 5, 2010 the Company closed a non-brokered private placement, consisting of 575,000 units at a price of $0.12 per unit for gross proceeds of $69,000. Each unit is comprised of one common share of the Company and one non-transferable share purchase warrant with each whole warrant entitling the holder to purchase an additional common share at a price of $0.20 per share until March 5, 2012, subject to accelerated expiry in certain circumstances. Of the $69,000 proceeds, $40,573 was allocated to the warrants, being their estimated issue date fair value.

(d) **Stock Options:**

Under the Company's stock option plan, the Company may grant options to directors, officers, employees and consultants to purchase common shares up to a maximum of approximately 3.3 million common shares. Options will be granted at the market price on the date of the grant, less permitted discounts, will vest according to the timetable set at the time of the grant and will expire no later than five years from the date of grant.

A summary of stock option activity and information concerning outstanding exercisable options at May 31, 2011 is:

	Number of Options	Weighted Average Exercise Price
Options outstanding, May 31, 2009	1,972,500	$0.26
Expired	(165,000)	$0.10
Options outstanding, May 31, 2010	1,807,500	$0.27
Cancelled	(300,000)	$0.20
Options outstanding, May 31, 2011	1,507,500	$0.27
Options exercisable, May 31, 2011	1,507,500	$ 0.27

As at May 31, 2011, the following stock options are outstanding:

Options Outstanding	Options Exercisable	Exercise Price	Grant Date	Expiry Date	Weighted Average Remaining Life (Years)
1,295,000	1,295,000	$ 0.30	June 9, 2008	June 9, 2013	2.02
12,500	12,500	0.30	October 1, 2008	October 1, 2013	3.33
200,000	200,000	0.10	January 12, 2009	January 12, 2014	2.61
1,507,500	1,507,500	$ 0.27			2.10

During the year ended May 31, 2010, $219,183 was recorded as stock-based compensation relating to vesting of options granted during a prior year, of which $118,931 was recorded in deferred exploration expenditures.

(e) **Share Purchase Warrants**

As at May 31, 2011, the following warrants to purchase shares are outstanding:

Exercise Price Per Share	Expiry Date	Balance, May 31, 2010	Granted	Expired	Balance, May 31, 2011
$0.50	June 9, 2010	1,634,184	-	(1,634,184)	-
$0.30	June 9, 2010	24,500	-	(24,500)	-
$0.20	December 14, 2010	416,250	-	(416,250)	-
$0.10	July 19, 2011	-	1,000,000	-	1,000,000*
$0.20	March 5, 2012	575,000	-	-	575,000
		2,649,934	1,000,000	(2,074,934)	1,575,000

*On July 19, 2011, these warrants expired unexercised.

7. Related Party Transactions

Related party transactions not otherwise separately disclosed in these financial statements are:

	May 31, 2011	May 31, 2010
Management fees paid to companies controlled by directors of the Company	$ 60,000	$ 60,000
Rent paid to a company with common management	4,602	9,413
Consulting fees paid to a company controlled by a director of the Company	480	-
	$ 65,082	$ 69,413

These transactions were in the normal course of operations and were recorded at their exchange amount, which is the amount agree to by the related parties.

Accounts payable includes $31,124 (2010 - $24,385) payable to companies controlled by a director of the Company and to an officer of the Company. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

The loan of $10,000 payable at May 31, 2010 was payable to a private company controlled by a director of the Company and was unsecured, non-interest bearing and had no fixed terms of repayment. The loan was repaid during the year ended May 31, 2011.

8. Commitments

(a) The Company has a management services agreement with a company controlled by a director of the Company requiring payments of $5,000 per month. The agreement is in effect until February 28, 2014 unless terminated earlier in accordance with the provisions of the agreement.

(b) The Company shares its premises with other companies controlled by a director of the Company and is allocated its proportion of the annual rent.

9. Segmented Information

The Company's worldwide operations are all conducted in one industry segment, the exploration and development of mineral property interests.

The Company's assets by geographic segment are:

May 31, 2011

	Canada	Liberia, West Africa	Tanzania, East Africa	Kenya, East Africa
Assets by geographic segment:				
Cash	$ 9,612	$ -	$ -	$ 3,676
Other current assets	13,719		-	-
Equipment	111	-	-	-
Mineral property assets	-	-	-	654,723
	$ 23,442	$ -	$ -	$ 658,399

May 31, 2010

	Canada	Liberia, West Africa	Tanzania, East Africa	Kenya, East Africa
Assets by geographic segment:				
Cash	$ 19,134	$ 6,841	$ -	$ 1,323
Other current assets	37,135	-	-	-
Equipment	138		-	-
Mineral property assets	-	-	2,052,399	678,162
	$ 56,407	$ 6,841	$ 2,052,399	$ 679,485

10. Income Taxes

The provision for income taxes differs from the amount that would have resulted in applying the combined Canadian federal and provincial tax rates as follows:

		May 31, 2011		May 31, 2010
Net loss before income taxes	$	(2,210,637)	$	(659,457)
Statutory income tax rates		27.67%		29.38%
Expected income tax recovery		(611,684)		(193,715)
Write-down of mineral properties		-		105,726
Foreign mineral property expenditures		-		(30,173)
Other		608		2,886
Effect of foreign tax rates		58,002		-
Change in valuation allowance		387,647		81,578
Income tax recovery	$	(165,427)	$	(33,698)

The significant components of the Company's future income tax assets and liabilities are as follows:

		May 31, 2011		May 31, 2010
Future income tax assets:				
Equipment	$	37	$	46
Mineral properties		361,178		-
Non-capital loss carry forwards		853,782		780,051
Share-issue costs		14,527		34,237
		1,229,524		814,334
Future income tax liabilities:				
Mineral properties		(161,768)		(334,302)
Net future income tax asset before valuation allowance		1,067,756		480,032
Valuation allowance		(1,201,981)		(814,334)
Net future income tax liability	$	(134,225)	$	(334,302)

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. A valuation allowance has been provided against certain of these future income tax assets as there exists uncertainty that there will be sufficient future taxable profits and therefore their recoverability cannot be considered more likely than not.

The Company has Canadian non-capital losses of $1,204,304 available to reduce future taxable income. The losses expire as follows:

2014	$	3,476
2015		46,606
2026		61,087
2027		170,664
2028		148,223
2029		301,527
2030		284,640
2031		188,081
	$	1,204,304

The Company has Canadian cumulative foreign resource expenditures of $1,441,711 available to reduce future taxable income. These expenses have no expiration date.

11. Management of Financial Risk

The Company's financial instruments are exposed to certain risks, which include currency risk, credit risk, interest rate risk, and liquidity risk.

Currency risk

Currency risk is the risk of a loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations of foreign currency denominated monetary assets and liabilities. The Company currently operates in Canada, and Kenya. The Company manages its currency risk through the preparation of short and long term expenditure budgets in different currencies and converting Canadian dollars to foreign currencies whenever exchange rates are favourable.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is on deposit at major financial institutions. Accounts receivable consist primarily of goods and services tax refunds due from the Government of Canada. As such, the Company considers this risk to be minimal.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed rate cash equivalent investments of varying maturities. The risk that the Company will realize a loss as a result of a decline in the fair value of these investments is limited as the Company only invests in highly liquid securities with short-term maturities.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure (Note 12).

12. Management of Capital

The Company's objectives when managing capital, which are unchanged from prior periods, are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company considers its capital to be its cash and common shares. The Company manages its capital and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust its capital, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and short-term investments. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company will have to raise additional capital resources to meet its planned operations and administrative overhead expenses. The future exploration and development of the Company's mineral properties in the near and long term will depend on the Company's ability to obtain additional funding through equity or debt financing or through the joint venture of projects. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. The Company believes it will be able to raise capital as required in the long term, but recognizes there will be risks involved that may be beyond its control.

The Company is not subject to any external capital restrictions and there were no changes to its approach to the management of its capital during the year.

13. Subsequent Event

On September 19, 2011, the Company closed the first tranche of a non-brokered private placement of 4,250,000 units at a price of $0.05 per unit for gross proceeds of $212,500. Each unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.10 per share until September 19, 2013, subject to accelerated expiry in certain circumstances.